Report

of the

Examination of

Darlington Mutual Insurance Company

Darlington, Wisconsin

As of December 31, 1999

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May 12, 2000

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 1999, of the affairs and financial condition of

DARLINGTON MUTUAL INSURANCE COMPANY
Darlington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 1999, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on May 18, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Darlington Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Grant, Green, Iowa, and Lafayette

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance-premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through eight agents, five of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Farmowner's	15%
Homeowner's	19
Commercial	15
Inland Marine/Special Property	10
Rented Dwelling/Mobile Homeowner's	19
Liability	10

Agents have authority to adjust losses up to $10,000. Losses in excess of this amount are adjusted by an independent adjuster and the agent who wrote the policy. Agent adjusters receive $10 for each loss adjusted plus $0.30 per mile for travel allowance. The independent adjuster receives $12 an hour plus $0.30 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Bruce Berget	Agent	Gratiot, WI	2002
Albert Bryant	Retired	Benton, WI	2001
James Crotty	Farmer/Agent	South Wayne, WI	2003
Cletus Gile	Agent	Cuba City, WI	2002
Duane Hanson	Agent	Blanchardville, WI	2002
Thomas Palzkill	Retired Farmer	Mineral Point, WI	2001
Roberta Stauffacher	Secretary/Agent	Mineral Point, WI	2003
Larry Teasdale	Auctioneer/Farmer	Shullsburg, WI	2001
Donald Tuescher	Electrician	Darlington, WI	2003

Members of the board currently receive $100 for each meeting attended and $0.30 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
Cletus Gile	President	$ 5,000
Donald Tuescher	Vice-President	0
Roberta Stauffacher	Secretary-Treasurer	38,000

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee

The adjusting committee consists of four members—the agent that has the loss and the three officers of the company.

Executive Committee

Cletus Gile	Chairman
Donald Tuescher	Member
Roberta Stauffacher	Member

Investment Committee

Cletus Gile	Chairman
Donald Tuescher	Member
Roberta Stauffacher	Member

Growth of Company

The growth of the company during the past four years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$1,192,747	$ 772,934	2,544	$ 95,228	$1,981,978	$1,098,864
1997	974,161	1,008,277	2,448	(336,197)	1,995,715	785,603
1998	980,962	801,046	2,379	(89,388)	1,771,906	724,156
1999	1,020,467	564,630	2,255	151,150	1,790,092	889,875

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Net
1996	$1,655,389	$1,209,959	$1,098,864	150.7%	110.1%
1997	1,768,885	1,109,636	785,603	225.2	141.3
1998	1,615,110	960,517	724,156	223.0	132.6
1999	1,632,110	1,002,124	889,875	183.4	112.6

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$ 772,934	$383,679	$1,192,747	65%	32%	97%
1997	1,008,277	384,062	974,161	104	35	138
1998	801,046	357,093	980,962	82	37	119
1999	564,630	351,654	1,020,467	55	35	90

Surplus reached a company high of $1,098,864 on December 31, 1996. Since December 31, 1996, surplus decreased by $208,989 or roughly 19%. This decrease may be partially attributed to the higher frequencies of windstorms during 1997, and 1998. Other results demonstrate relatively small decreases as the company has decreased policies in force by 289 policies and net premium earned has decreased by 14%.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one ceding treaty. The treaty reviewed contained proper insolvency clauses. All treaties complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2000
Termination provisions:	January 1, 2001, or any subsequent January 1, by either party providing at least 90 days' advance notice in writing

The coverage provided under this treaty are summarized as follows:

1.	Type of contract:	Class A, Casualty Excess of Loss Reinsurance
	Lines reinsured:	Nonproperty
	Company's retention:	$1,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss, including loss adjustment expense in excess of net retention of $1,000; limited to $1,000,000 per occurrence
	Reinsurance premium:	82.5% of net premium written
2.	Type of contract:	Class B, First Surplus
	Lines reinsured:	Property
	Company's retention:	When the company's net retention is $400,000 or more in respect to a risk, the company may cede on a pro rata basis up to $800,000. When the company's retention is $400,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk
	Coverage:	The pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company
	Ceding Commission:	15% sliding scale with a min/max rate of15/35%. The current rate is 15%.

3.	Type of contract:	Class C-1, Excess of Loss Reinsurance
	Lines reinsured:	Property
	Company's retention:	$40,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each loss occurrence, excluding loss adjustment expense, in excess of $40,000 in respect to each and every risk resulting from one loss occurrence, limited to $60,000
	Reinsurance premium:	Based on the prior four years' losses incurred by the reinsurer under the contract, subject to the minimum rate of 5% of net premiums written and a maximum rate of 22% of net premiums written The rate for the current annual period is 8.53%
4.	Type of contract:	Class C-2, Excess of Loss Second Layer
	Lines reinsured:	Property
	Company's retention:	$100,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each loss occurrence, excluding loss adjustment expense, in excess of $100,000 up to a maximum of $300,000
	Reinsurance premium:	3% of net premiums written, subject to a minimum annual premium of $30,240
5.	Type of contract:	Class D/E, Stop Loss
	Lines reinsured:	
		Part A Property
		Part B All business written
	Company's retention:	
		Part A $100,000 of net losses, excluding loss adjustment expenses, arising out of the same event during any period of 72 consecutive hours
		Part B Net losses, excluding loss adjustment expenses, equal to not less than 70% of the company's net written premium, subject to a minimum retention of $672,000. The minimum retention does not apply in the event of the company's rehabilitation, liquidation or dissolution

Coverage:

	Part A 100% above company's retention, but limited to $250,000 per loss occurrence, not to exceed $500,000 during each annual period
	Part B 100% above company's retention
Reinsurance premium:	Based on the prior eight years' losses incurred by the reinsurer under both part A and part B, subject to the minimum rate of 7% of net premiums written and a maximum rate of 25% of net premiums written
	Part A The rate for the current annual period is 3%
	Part B The rate for the current annual period is 7.21%

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 1999. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus."

Darlington Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 1999

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking account	$ 90,127	$	$	$ 90,127
Cash deposited at interest	464,156			464,156
Bonds (at amortized cost)	516,790		880	515,910
Stocks or mutual fund investments (at market)	441,041		32,665	408,376
Real estate (net of accumulated depreciation and encumbrances)	70,037			70,037
Premiums and agents' balances In course of collection	9,781			9,781
Premiums and agents' Balances and installments booked but deferred and not yet due	195,291			195,291
Investment income due or accrued		11,824		11,824
Reinsurance recoverable on paid losses and LAE	21,776			21,776
Electronic data processing equipment – excluding software (cost less accumulated depreciation	2,814			2,814
Reinsurance premium overpayment receivable				
Furniture and fixtures	4,898		4,898	
Totals	$1,816,711	$11,824	$38,443	$1,790,092

Liabilities and Surplus

Net unpaid losses	$ 75,225
Unpaid loss adjustment expenses	2,500
Commissions payable	101,399
Fire department dues payable	182
Net unearned premiums	647,172
Reinsurance payable	21,299
Amounts withheld for the account of others	2,436
Payroll taxes payable	1,161
Other liabilities:	
Expense related	
Accounts payable	546
Accrued property taxes	949
Nonexpense	
Premiums received in advance	42,748
Amounts collected on behalf of agents	4,600
Total liabilities	900,217
Policyholders' surplus	889,875
Total	$1,790,092

Darlington Mutual Insurance Company
Statement of Operations
For the Year 1999

Net premiums and assessments earned	$1,020,467
Deduct:	
Net losses incurred	496,059
Net loss adjustment expenses incurred	68,571
Other underwriting expenses incurred	351,654
Total losses and expenses Incurred	916,284
Net underwriting gain (loss)	104,183
Net investment income:	
Net investment income earned	41,452
Net realized capital gains	(30)
Total investment income	41,422
Other income:	
Miscellaneous income	
Installment payment fees	5,545
Net investment and other income	46,967
Net income (loss) before policyholder dividends and before federal income taxes	151,150
Policyholder refunds or dividends	
Net income (loss) before federal income taxes	
Federal income taxes incurred	
Net income (loss)	$ 151,150

Darlington Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Four-Year Period Ending December 31, 1999

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$ 986,725
1996		
Net income (loss)	$ 95,228	
Net unrealized capital gains or losses	9,739	
Change in nonadmitted assets	7,172	
Change in surplus as regards policyholders for the year	112,139	
Surplus as regards policyholders, December 31, 1996		1,098,864
1997		
Net income (loss)	(336,197)	
Net unrealized capital gains or losses	16,560	
Change in nonadmitted assets	6,376	
Change in surplus as regards policyholders for the year	(313,261)	
Surplus as regards policyholders, December 31, 1997		785,603
1998		
Net income (loss)	(89,388)	
Net unrealized capital gains or losses	19,999	
Change in nonadmitted assets	7,942	
Change in surplus as regards policyholders for the year	(61,447)	
Surplus as regards policyholders, December 31, 1998		724,156
1999		
Net income	151,150	
Net unrealized capital gains or losses	15,392	
Change in nonadmitted assets	(823)	
Change in surplus as regards policyholders for the year	165,719	
Surplus as regards policyholders, December 31, 1999		$ 889,875

Reconciliation of Policyholders' Surplus

There was no adjustment to the reported policyholders' surplus as a result of the examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Conflict of Interest—It is recommended that the company formally establish a procedure for its completion of conflict of interest questionnaires on an annual basis as required by the directives of the Commissioner of Insurance.

   Action—Compliance

2. Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Compliance

3. Invested Assets—It is again recommended that the company establish a method for its board of directors to review and monitor investment transactions on a quarterly basis in the future.

   Action—Compliance

4. Stocks and Mutual Funds—It is recommended that the company evaluate its common stock holdings based on this new rule and divest of any common stock holdings which are not in compliance with the new rule.

   Action—Partial compliance, see comments in the summary of current examination results

5. Losses—It is recommended that the company establish procedures to ensure that its losses are investigated and settled promptly in order to avoid unfair claim settlement practices as described in s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

   Action—Noncompliance, see comments in the summary of current examination results

6. Unpaid Loss Adjustment Expense—It is recommended that the company adopt an actuarial method in order to determine a more adequate loss adjustment expense reserve.

   Action—Compliance

7. Pension Liabiity—It is again recommended that the company properly account for all pension liabilities in its future annual statements.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no conflicts being disclosed.

During the review of the board minutes it was noted that directors who were also agents of the company voted on the company's commission rates. It is appropriate for directors to contribute to board discussions even in those instances in which they have a conflict of interest, but when directors have a conflict of interest they should refrain from voting on applicable resolutions. It is recommended that directors refrain from voting on transactions in which they have a conflict of interest pursuant to ss. 612.18 and 611.60 (2), Wis. Stat.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 250,000
Commercial general liability	1,000,000
Worker’s compensation	100,000
Employe health benefit	200,000
Employe life insurance	Equal to annual salary
Employe long-term disability	66%of monthly salary

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has recently implemented a formal inspection procedure for both new and renewal business. An inspector/adjuster who is independent of the risk being written inspects all new applications and a sampling of renewal business.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 1999.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least two officers, directors, or employes of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$1,200,217
2.	Liabilities plus 33% of gross premiums written	1,438,813
3.	Liabilities plus 50% of net premiums written	1,401,279
4.	Amount required (greater of 1, 2, or 3)	1,438,813
5.	Amount of Type 1 investments as of 12/31/99	1,227,752
6.	Excess or (deficiency)	(211,061)

The company does not have sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment, which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has seven investments, with a statement value of $149,309, which are not in compliance with the new investment rule.

In accordance with s. Ins 6.20 (6) (h), Wis. Adm. Code, " the board of directors of a town mutual shall adopt a written plan for acquiring and holding investments and for engaging in investment practices which specifies guidelines as to the quality, maturity, diversification or investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs and the amount of surplus". The company's current investment plan was approved by our office in a letter dated August 13, 1992. The examination determined that the investment plan was no longer sufficient as it does not address changes as a result of the new investment rule. It is recommended that the company develop a formal investment plan, in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

Since the inception of the new investment rule, the company has made additional Type 2 investments without having an adequate amount of Type 1 investments. It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$554,283**

The above asset is comprised of the following types of cash items:

Cash in company's office	$
Cash deposited in banks-checking accounts	90,127
Cash deposited in banks at interest	464,156
Total	$554,283

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained at the F & M Bank. Verification of checking account balance was made by obtaining confirmation directly from the depositor and reconciling the amount shown thereon to company records.

Cash deposited in banks represents the aggregate of nine deposits in six depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 1999 totaled $19,312, and was verified to company cash records. Rates of interest earned on cash deposits ranged from 5.0% to 6.1%. Accrued interest on cash deposits totaled $5,617 at year-end.

Book Value of Bonds

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 1999. Bonds owned by the company are located in the company's office.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 1999 on bonds amounted to $28,133 and was traced to cash receipts records. Accrued interest of $6,207 at December 31, 1999, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments $408,376

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 1999. Stocks owned by the company are located in company's office or held as mutual funds.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

During the prior examination it was recommended that the company evaluate its common stock holdings based on the new investment rule effective as of January 1, 1997, and divest of any common stock holdings which were not in compliance. As of December 31, 1999, the company still owns the following common stocks and mutual funds that are not in compliance with the new investment rule:

1. Bell Atlantic – Common Stock
2. Chase Manhatten Bank – Common Stock
3. GTE Corporation – Common Stock
4. Intel Corporation – Common Stock
5. New Centy Energies, Inc. – Common Stock
6. Colonial Newport Tiger Class A – Stock Mutual Fund
7. Oppenheimer Multi Strategies Fund A – Stock Mutual Fund

It is recommended that the company divest its common stock and stock mutual funds that are not in compliance with the new investment rule.

Dividends received during 1999 on stocks and mutual funds amounted to $410 and were traced to cash receipts records. There were no accrued dividends as of December 31, 1999.

Book Value of Real Estate **$70,037**

The above amount represents the company's investment in real estate as of December 31, 1999. The company's real estate holdings consisted of its home office building.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate. The company has self-insured the property risk associated with its home office. The current insurance program would cover loss up to $100,000, and contents up to $25,000. The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Agents' Balances or Uncollected Premiums **$205,072**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days' past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$11,824**

Interest due and accrued on the various assets of the company at December 31, 1999, consists of the following:

Cash deposited at interest	$ 5,617
Bonds	6,207
Total	$11,824

Reinsurance Recoverable on Paid Losses **$21,776**

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 1999. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$2,814**

The above asset consists of $2,814 of depreciated value of the computer equipment owned by the company at December 31, 1999. A review of the equipment inventory and depreciation schedule verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$75,225**

This liability represents losses incurred on or prior to December 31, 1999, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences were considered to be immaterial and no audit adjustment was made.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$586,251	$580,390	$5,861
Less:			
Reinsurance recoverable on unpaid losses	511,026	506,931	4,095
Net unpaid losses	$ 75,225	$ 73,459	$1,766

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 1999. To the actual paid loss figures was added an estimated amount for those 1999 and prior losses remaining unpaid at the examination date.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and some instances where payments are not made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Both the current examination and the prior examination noted that the company routinely allows claims to remain open for a number of years without settlement, the company waiting for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Unpaid Loss Adjustment Expenses **$2,500**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 1999, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is averaging the prior year's loss adjustment expenses per claim and multiplying this amount by the current year open claims.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$101,399**

This liability represents the company's estimate of commissions payable to agents on paid premiums. The examiners verified this amount by tracing to subsequent payment of commissions to the agents. The examiners determined that this liability was fairly stated.

Fire Department Dues Payable **$182**

This liability represents the fire department dues payable at December 31, 1999. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$647,172**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established by dividing the days remaining to expiration by 365 and multiplying that factor by annual premium figures on an individual policy basis. Policy data was tested and recalculated to verify the accuracy of this liability. The examiners determined that this liability was fairly stated.

Reinsurance Payable **$21,299**

This liability consists of amounts due to the company's reinsurer at December 31, 1999, relating to transactions which occurred on or prior to that date.

Class A – Liability	$(13,592)
Class B – First Surplus	30,791
Class C-1	1,600
Class C-2	800
Class D/E	1,700
Total	$ 21,299

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$2,436**

This liability represents employe payroll deductions in the possession of the company at December 31, 1999. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$1,161**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 1999, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Miscellaneous Accounts Payable **$547**

This liability consists of various general expenses that were due as of December 31, 1999. The examiners reviewed subsequent cash disbursements and found the liability to be adequately stated.

Accrued Property Taxes **$948**

This liability represents the property taxes due on the company's home office as of December 31, 1999. A review of the subsequent payment verified the amount of this liability.

Premiums Received In Advance **$42,748**

This liability represents the premiums received by December 31, 1999 that related to policies effective after year-end. . Cash receipts were traced to policy data that was tested and recalculated to verify the accuracy of this liability. The examiners determined that this liability was fairly stated.

Amounts Collected on Behalf of Agents **$4,600**

This liability represents amounts due to agents other than commissions. Subsequent payments were reviewed and verified the accuracy of this liability.

V. CONCLUSION

The current examination resulted in one repeat recommendation and four new recommendations. The majority of the recommendations related to the investment practices of the company. These are important issues as investments are a key contributor to the financial condition of the company. The repeat recommendation related to the timeliness in which the company settles claims. Delayed claim settlement can increase exposure to additional losses as damaged and unrepaired property may be susceptible to additional damage with the passage of time.

As a result of the examination, the surplus reported by the company of $889,875 was accepted. Surplus has declined two out of the four years under review, overall surplus decreased from $986,725 as of December 31, 1995, to $889,875 as of December 31, 1999.

The number of policies written decreased during the examination period from 2,562 to 2,255. Gross premiums written have remained relatively unchanged during the period of examination, but underwriting income and net income have maintained a very cyclical trend. The company reported net underwriting losses and net losses two out of the four years. A similar trend was noted in the prior examination. In response to this trend, the company has attempted to improve underwriting results with a more extensive inspection process. Any potential improvements from this process will not be readily apparent, but normally takes several years to develop.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Conflict of Interest—It is recommended that directors refrain from voting on transactions in which they have a conflict of interest pursuant to ss. 612.18 and 611.60 (2), Wis Stat.

2. Page 20 - Transition into the new investment rule— It is recommended that the company develop a formal investment plan, in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

3. Page 20 - Transition into the new investment rule—It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

4. Page 22 - Stocks and Mutual Funds—It is recommended that the company divest its common stock and stock mutual funds that are not in compliance with the new investment rule.

5. Page 23 - Losses—It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Steven Harwick of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Tim Vande Hey
Examiner-in-Charge